



San Mateo County Treasurer/Tax Collector

Lee Buffington

Cash Flow Analysis In Portfolio Management

Most of Us Analyze and Manage Our Personal Budgets

We know our fixed expenses like rent, mortgage, insurance and utilities

We also plan for elective expenditures like a new car or a nice vacation

It's also true that barring unforeseen circumstances; most of us know the amount of our paycheck and when we'll receive it

In other words..We are in control

In the Public Sector

We Don't Always Know What to Expect

The legislative body may decide to spend our money on an unanticipated project

Or perhaps, the state legislature will work their magic on *what was once* our expected revenue

...We Don't Always Know What to Expect

Budgets are frequently built based on expected yearly expenditures, while cash inflows and outflows vary by month

Expenditures and receipts may balance at the end of the year, but chances are they won't balance month-by-month which results in negative balances

How Can Cash Flow Analysis Help?

Cash flow analysis is how we determine our income, expenses and what we have left over to invest

Cash flow analysis is the basis for building a **forecast**

Why Should You Forecast?

Forecast - to calculate or estimate something in advance; predict the future

(Webster's Dictionary)

Forecasting will help you to gain control over the uncertainties in public sector finance

Forecasting will give you a plan and target for your investment strategy, helping you to recognize weaknesses and exploit opportunities

...Why Should You Forecast?

Forecasting will assist you in understanding the impact of changes as they occur

For Treasurers, forecasting will give you the confidence to certify that you have sufficient funds to cover the next six months of expenditures (Government Code Section 53646 b (3))

...Why Should You Forecast?

A good cash flow forecast enables good cash flow management

Forecasting will also help you to manage variations in cash flow

Managing Variations in Cash Flow

Beware of fluctuations in near term numbers

Watch the revenue side for significant changes

Review heavy user expenditure patterns

Monitor the incidental user

Cash Flow Forecasting

How do you get started?

Review your accounting history for revenue and expenditures

-Get the general picture-

Create a simple, one page, forecasting form to begin tracking your revenue, expenditures and investments

Use tracking categories that are simple and meaningful to you

...How do you get started?

Include the following: **net cash flow balance, negative cash flow and maturing securities that could be called**

Start with what you know and gradually build up the reliability of your forecast

... Remember...Keep it Simple

What Time Period Should Your Forecast Cover?

Consider a rolling 16 month calendar

A 16 month forecast provides a better view into the future than the typical 12 month forecast

Since counties have a positive cash flow just three or four times a year, it takes 16 months to include up to two income cycles in the forecast

How Do You Fine Tune Your Forecast?

Recognize the weakness of a month-by-month forecast

Create a *daily forecast* for the active month

Make adjustments to your forecast to accommodate changes

How Do You Fine Tune Your Forecast?

Use your morning bank report and daily forecast to determine how much money you need to place each day to be fully invested

Increasing Your Earnings

A good forecast will give you control over your cash flow so you can look at new ways to increase your revenue...

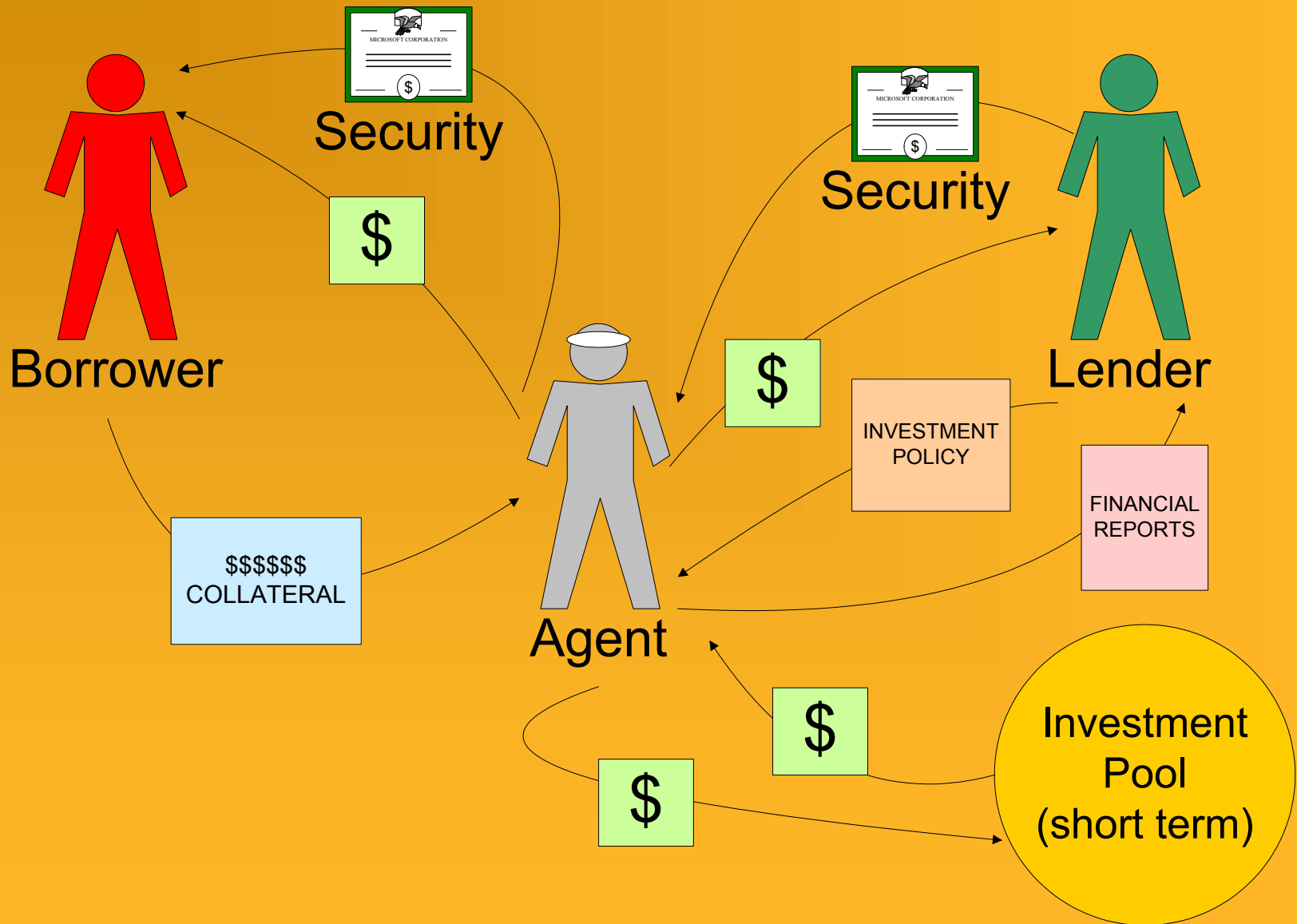
How to Increase Your Earnings

Security Lending

Securities lending is the transfer of a security from one broker/dealer to another

Security loans are generally collateralized by cash and include accrued interest

Security Lending



...Security Lending

To protect the lender's position, the borrower must provide full collateral, typically between 100% and 103%

The funds received by the lender, as collateral from the borrower, are invested by the lender's agent according to established guidelines

...Security Lending

The interest income from invested funds is split between the lender and the agent bank

In our case, we keep a maximum of 20% of our portfolio on loan which earns us an extra \$50,000 a month in income

...Security Lending

Caution..Make certain that your selected agent reinvests your funds in securities that meet your investment criteria.

We monitor reinvestments daily

How to Increase Your Earnings

Control Banking Costs

Use zero balance accounts to eliminate the need to fund bank balances

Identify users of costly bank services and charge appropriately

Eliminate low paying bank accounts and costly overdrafts

Compensating Balances

If you choose to use compensating balances, keep the balance at the minimum amount required to obtain free services

A compensating balance is the amount of money a bank requires a customer to maintain in a non-interest bearing account, in exchange for which the bank provides free services

Scenario #1

\$300,000,000 in overnight investment at 1.00%-----	\$3,000,000
Annual bank charges-----	(480,000)
Annual earnings distributed to participants-----	<u>\$2,520,000</u>

Securities Lending Income

Sept. 2002 – August 2003-----	<u>\$626,809</u>
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Total additional earnings to be Distributed due to securities lending and being fully invested.	<u>\$3,146,809</u>
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Scenario #2

\$300,000,000 in overnight

Investment at .3797%

earnings credit -----	\$1,139,100
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Annual bank charges-----	(480,000)
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Earnings credit will never be recouped-----	<u>\$659,100</u>
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Securities Lending Income

Sept. 2002 – August 2003-----	<u>\$626,809</u>
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Securities lending income only (Earnings credit never recouped).. <td><u>\$626,809</u></td>	<u>\$626,809</u>
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...How to Increase Your Earnings

Recoup banking costs from Pool Participants

How we do it....

Heavy users (16%) of the banking system pay fixed and variable banking costs plus our fee

Light users (22%) pay fixed banking costs plus our fee

Investors (62%) who don't use the banking system pay *only* our fee

...How to Increase Your Earnings

Don't be afraid to shop around for your banking, trustee and security lending vendors

---Do your homework---

A Final Word....

Using Cash flow analysis, forecasting and management has worked well for us

We actively manage our cash flow and are always on the look-out for new ways to improve our bottom line